

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 PA-02 AID-05 CIAE-00 COME-00

EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 H-02 L-03 /122 W

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R 110401Z JUL 78

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3752

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMEMBASSY PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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USOECDD

E.O. 11652: N/A

TAGS: EFIN, ECON, AS

SUBJ: FY-78 GOA BUDGET DEFICIT EXCEEDS FORECAST BY JUST OVER A

DOLS ONE BILLION AND THOUGHTS FOR FUTURE

1. SUMMARY: TREASURER AND ACTING MINISTER FOR FINANCE HOWARD RELEASED JULY 7 FINAL RESULTS OF AUSTRALIAN FINANCIAL YEAR 1977/78 (FY78). STATEMENT REVEALED THAT DEFICIT WAS JUST OVER A DOLS ONE BILLION HIGHER THAN ORIGINALLY FORECAST. WHILE EXPENDITURES ONLY 0.5 PERCENT OVER ESTIMATE, REVENUES FELL 4 PERCENT BELOW ESTIMATES, DUE TO NO SMALL PART TO UNDER ESTIMATED PAYMENTS BY NON-PAY-AS-YOU-EARN (PAYE) TAXPAYERS, ESPECIALLY PRIMARY PRODUCERS. PAYE REFUNDS WERE ALSO CONSIDERABLY ABOVE ESTIMATES. BIG ITEMS IN FINANCING DEFICIT WERE GOVERNMENT SECURITIES AND NET OVERSEAS BORROWINGS. HOWARD STATED THAT GROWTH RATE OF M3 HAD

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BEEN HELD VERY CLOSE TO FORECAST RANGE OF 8-10 PERCENT. HE FORECAST STRINGENT FY-79 BUDGET. END SUMMARY.

2. STATEMENT REVEALED THAT DEFICIT IN FY-79 WAS A DOLS 3,332 MILLION, AN INCREASE OF A DOLS 1,115 MILLION OVER AUGUST 1977 ESTIMATE OF A DOLS 2,217 MILLION.

3. TOTAL EXPENDITURE FOR FY-78 WAS A DOLS 26,796 MILLION, UP A DOLS 140 MILLION (0.5 PERCENT) OVER AUGUST 1977 ESTIMATE OF A DOLS 26,656 MILLION. OVER-RUN ITEMS SINGLED OUT BY HOWARD WERE A DOLS 44 MILLION FOR NATURAL DISASTER RELIEF PAYMENTS; ASSISTANCE TO BEEF PRODUCERS, A DOLS 85 MILLION; FOR MINING OPERATIONS AT MARY KATHLEEN AND MOUNT LYELL, A DOLS 12 MILLION; PENSIONS AND WELFARE PAYMENTS, UP A DOLS 244 MILLION, INCLUDING AN ADDITIONAL A DOLS 155 MILLION FOR UNEMPLOYMENT AND SICKNESS BENEFITS. OTHER OVER-RUNS OCCURRED IN RESPECT TO EXPENDITURES ON NATIONAL EMPLOYMENT AND TRAINING SYSTEM (NEATS), A DOLS 31 MILLION; HOME SAVINGS GRANTS A DOLS 14 MILLION; AND OVERSEAS LOAN FLOTATION EXPENSES A DOLS 13 MILLION. THESE, AND OTHER OVER-RUNS, LARGELY OFFSET BY LESS THAN ESTIMATED OUTLAYS WITH RESPECT TO MEDIBANK PAYMENTS, DOWN A DOLS 91 MILLION; AND PUBLIC DEBT INTEREST PAYMENTS, DOWN A DOLS 78 MILLION.

4. HOWARD SAID THAT FY-78 RECEIPTS AMOUNTED TO A DOLS 23,465 MILLION, ABOUT A DOLS 975 MILLION (4 PERCENT) LESS THAN ESTIMATED A DOLS 24,439. LARGEST SHORTFALL OF A DOLS 403 MILLION OCCURRED IN COLLECTION FROM NON-PAYE INDIVIDUALS. SHORTFALL OF A DOLS 356 MILLION IN NET PAYE COLLECTIONS RESULTED FROM FACT THAT PAYE REFUNDS A DOLS 300 MILLION HIGHER THAN ESTIMATES. COLLECTIONS OF CUSTOMS DUTY FOR IMPORTS WERE A DOLS 183 MILLION BELOW ESTIMATES, AS IMPORTS LOWER THAN ESTIMATED AND RATION OF DUTY TO DUTIABLE IMPORTS ALSO SHOWED SHORTFALL. SALES TAX RECEIPTS WERE A DOLS 107 MILLION BELOW ESTIMATES, PRIMARILY REFLECTING LOWER SALES OF GOODS

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IN 27.5 PCT RATE CLASS, WHICH INCLUDES AUTOMOBILES. TREASURER NOTED THAT COMPANY TAX RECEIPTS WERE A DOLS 97 MILLION ABOVE ESTIMATE ON ACCOUNT OF STRAONGER GROWTH OF COMPANY INCOME IN FY-77 THAN EARLIER ESTIMATED.

5. HOWARD SAID THAT GOVERNMENT SECURITIES REMAINED ATTRACTIVE IN FY-78 WITH PUBLIC LOAN RAISINGS CONTRIBUTING A DOLS 1,209 MILLION TO FINANCING OF FEFICIT, WITH AUSTRALIAN SAVINGS BONDS AND SPEICAL BONDS COMPRISING A NET A DOLS 401 MILLION OF THIS TOTAL. LOAN RAISINGS WERE OFFSET TO A SMALL EXTENT BY A RUNDOWN OF A DOLS 7 MILLION IN VALUE OF TREASURY NOTES ON ISSUE. NET OVERSEAS BORROWINGS BY GOVERNMENT AMOUNTED TO A DOLS 1,612 MILLION, COMPARED WITH A DOLS 357 MILLION IN FY-77. FOR REST, BORROWINGS FROM RESERVE BANK TOTALED A DOLS 200 MILLION AND MISCELLANEOUS FINANCING TRANSACTIONS AND NET USE OF CASH BALANCES CAME TO A DOLS 317 MILLION.

6. COMMENTING ON GOVERNMENT'S ECONOMIC STRATEGY, HOWARD NOTED WITH OBVIOUS PLEASURE THAT GROWTH IN M3 HAD BEEN KEPT WITHIN 8-10 PERCENT GROWTH-RATE FORECAST IN AUGUST 77 BUDGET. HE ALSO EMPHASIZED THAT HIGH SALES OF GOVERNMENT SECURITIES OWED MUCH TO "MAJOR SUCCESS STORY OF YEAR" THE MORE RAPID THAN EXPECTED REDUCTION IN INFLATION RATE AND ITS FAVORABLE CONSEQUENCES FOR INTEREST

RATES AND EXPECTATIONS IN FINANCIAL MARKETS GENERALLY. AS IF SUCH ADVICE WAS REALLY NEW, HOWARD UNDERLINED THAT "RIGOROUS ATTITUDE TOWARDS PUBLIC EXPENDITURES, WHICH HAD BEEN MAINTAINED THROUGHOUT THE YEAR, WAS CONTINUING IN FORMULATION OF THIS YEAR'S BUDGET."

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7. COMMENT: IN DISCUSSING FORTHCOMING BUDGET, PRIMIN FRASER RECENTLY GAVE STRONG HINT THAT IT MIGHT CONTAIN SIGNIFICANT INCREASES IN INDIRECT TAXES, ALTHOUGH BUGABOO IN THIS SORT OF EXERCISE HAS HERETOFORE BEEN ITS IMPACT ON CPI. IT WILL BE INTERESTING TO NOTE WHAT SORT OF ACTION, IF ANY, FRASER GOVERNMENT TAKES ON INCOME TAX INDEXATION IN FY-79. DEPARTMENT WILL RECALL THAT LIBERAL/NCP GOVERNMENT ORIGINALLY CAME OUT FOR FULL INDEXATION, BUT THAT IT RENEGED SOMEWHAT IN FY-78 BUDGET. PUSH AND PULL ON BOTH THESE FRONTS WILL BE BETWEEN THE BUREAUCRATS IN TREASURY AND DEPARTMENT OF FINANCE (EXPENDITURES) AND THE POLITICAL INSTINCTS OF MINISTER HOWARD (ACTING IN BOTH PORTFOLIOS IN VIEW OF ABSENCE "ON LEAVE" OF FINANCE MINISTER ROBINSON) AND PRIME MINISTER.
ALSTON

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